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INFO RHEBAAA/DEPT OF ENERGY WASHINGTON DC
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TREASURY FOR LEE/MGAERTNER
USDOC FOR 4231/ITA/OEENIS/NISD/CLUCYK

E.O. 12958: DECL: NA
TAGS: [EPET](#) [EFIN](#) [PINR](#) [RS](#) [TX](#) [UP](#)
SUBJECT: UKRAINE: NAFTOHAZ PAYS DEBT TO ROSUKRENERGO; STILL OWES
OTHER CREDITORS

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[11](#). (U) On December 4, Ukraine's state oil and gas monopolist NaftoHaz paid off its \$306 million debt to RosUkrEnergo (RUE) for 1Q2006 natural gas supplies, according to NaftoHaz Deputy Chairman Aleksandr Kovalko. In a December 7 press interview, Kovalko said NaftoHaz paid the debt with part of a \$350 million Credit Suisse loan received December 1. NaftoHaz's total debt now stood at \$2.17 billion, with over 90% due to foreign banks.

[12](#). (U) Kovalko said NaftoHaz could not pay off its RUE debt earlier this year because the National Electricity Regulatory Commission did not raise residential gas rates until after parliamentary elections. Kovalko implied that paying the RUE debt before the New Year would ensure NaftoHaz a stable 2007 gas supply from RUE, Gazprom, and Central Asian suppliers. NaftoHaz's debt to capital ratio was 35-36%, Kovalko claimed, approximately the same as that of other national oil and gas monopolies like Gazprom or Ruhrgas. Kovalko said NaftoHaz management had used all \$2.17 billion to meet payment obligations to the state budget or suppliers. To his knowledge, no loans had been used for investment projects. Kovalko was optimistic that NaftoHaz's finances would improve in 2007 with the introduction of higher residential gas rates.

Comment

[13](#). (SBU) Kovalko's sanguine view of NaftoHaz's debt-to-capital ratio fails to mention that, unlike state monopolists elsewhere, NaftoHaz has not used its credit for productive investment. While 2007 utility rates have gone up significantly, the increases are unpopular and being contested in the courts. End Comment.

[14](#). (SBU) BIO: Aleksandr Kovalko (DOB: 1970) is the son-in-law of former Prime Minister and current member of parliament Anatoliy Kinakh. Kovalenko's father, Mykola Kovalko, is a former member of parliament and current member of NaftoHaz's Supervisory Council. Aleksandr Kovalenko was appointed Deputy NaftoHaz Chairman in 2002. He is also a member of UkrTransNafta's supervisory board. He was appointed UkrNafta's Deputy Chairman for Economic Affairs in 1997.

GWALTNEY